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## The Problem of Continuity in Chinese Businesses in Southeast Asia

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### I Introduction

If we follow Fernand Braudel's classification, the economy can be divided into three sectors: capitalism, the market economy, and the subsistence economy [Braudel 1979: introduction]. The meaning of the third sector would be self-explanatory: goods are produced for the producer's own consumption. In the market economy and capitalism, however, economic activities are undertaken for the market; the difference between the two is that in the former economic activities are small-scale and utilize only a small amount of capital, while in the latter a large amount of capital is used and the scale of operation is large. Capitalism is then the sector in which the role of capital is pronounced.

Chinese businesses in this paper are not just any types of business owned and operated by the Chinese. I want to treat only those in which substantial capital is involved, that is, those in capitalism. They may be called capitalist institutions, and the people who own them can be called capitalists, but here they are usually called, respectively,

Chinese businesses and Chinese businessmen.

Southeast Asia is more narrowly defined in this paper than usual. Since I want to focus on the problem of business continuity in the past several decades, I cover only the area where capitalism exists today as it did earlier—which is the ASEAN region. It is sometimes maintained that capitalism exists in Burma since private property exists there, but since no concentration of capital exists in the Burmese private sector, I regard that it does not have capitalism.

The subject I want to treat is the factors affecting the continuity of Chinese businesses. Businesses rise and fall, in the developed countries as well as in Southeast Asia. It is neither interesting nor very meaningful to repeat the reasons given for the developed countries, so I want to focus on those which are either unique to the region or more pronounced there.

My focus is on Chinese businesses rather than on business families. This distinction is not very meaningful under some circumstances, but it needs to be made, for a business can have a longer life than a family. For example, a family may decline, but the business it set

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up can continue its life under a different ownership.

Businesses discussed in the paper were either set up or acquired by previously obscure businessmen and subsequently became large concerns, or were large already at the time when they were set up. In the former case, their business life (for the purpose of this paper) began when they became large concerns. Since a large mass of small business establishments exists under capitalism, some businesses may have operated long before they became large establishments, but the number of years when they were operating in the market economy is not counted.

## II Genesis and Expansion

Although the Southeast Asian economy had a market sector in pre-colonial times, it seems that it was underdeveloped compared with that in India and China.<sup>1)</sup> Then it expanded somewhat in the first two centuries of the colonial period, but it was only after the mid 19th century that its growth accelerated and a well-developed market economy

appeared. Around that time, Southeast Asia became more substantively integrated into the global economic network, as the result of the Industrial Revolution in the West, development of steamships, and the opening of the Suez Canal. The region became a market for the West's manufactured goods and a supplier of raw materials and tropical food products. To sustain and develop this pattern of integration, Western capital came in, but mainly on a large scale, so there was need for someone to develop the market economy sector. For the reasons of work ethic, know-how, and/or networks, the Chinese came to dominate this sector. So, the plural economic structure emerged: the Western merchants dominating in capitalism, the Chinese in the market economy, and the indigenous in the subsistence economy.

The Chinese, however, did not stay in the market economy sector for long: some began moving into capitalism. To date precisely when this began is somewhat difficult. Yap Ah Loy's tin mines in Kuala Lumpur employed several thousand people. His business may qualify as the first Chinese capitalistic institution in the region, but the reason he was able to organize such a large scale operation is that he was the head of a secret society who resorted to violence for the protection and expansion of his business, so I am reluctant to consider him as the first capitalist.<sup>2)</sup> But by the

1) The market economy starts with market exchange, so its history is long. The question is how developed it was in pre-colonial times, not whether it existed. At present, it is difficult to believe that it was well developed. As the market economy develops, the volume of transaction becomes large and the nature of business gets complex. As a result, a large quantity of money is used, and the system of recording transaction (such as accounting) develops. At present, there is no evidence that there was such development in the region covered in this paper.

2) Capitalism presupposes law and order, so a capitalist institution specializes in economic undertaking. Yap Ah Loy's business ↗

time of Chung Keng Kwee, law and order had been established by the British in Perak (the area of his operation), though he used his position as the head of a secret society for organizing tin mining operations. His businesses qualifies better as a capitalist institution than Yap Ah Loy's.<sup>3)</sup>

The Chinese also moved into trading and processing on a large scale. Lim Peng Siang's Ho Hong Group (Malaya), Oei Tiong Ham's Kian Gwan (Indonesia), and Chin Teng's Kim Seng Lee (Thailand) were among the earliest which broke into these fields.<sup>4)</sup> Once the flood gate opened, the Chinese began moving into capitalism in an increasing number and on a larger scale. They expanded their interests in tin mining, trading, and processing, and also diversified into plantations, banking, insurance, shipping, and finally manufacturing.

The growth of Chinese businesses has not necessarily been smooth in the past few decades, but Chinese capital has come to dominate the capitalism of Southeast Asia. One reason is that what Western capital was doing was not terribly difficult to imitate. There is not much high 'technology' involved in trading. Banking was more tricky, so some burned their fingers badly, especially in foreign exchange operation, but it did

not take too long to master the necessary know-how.<sup>5)</sup> Processing was not too difficult to take over, either. This was easiest in rice milling, whose technology was relatively simple and in which there was not much economy of scale.<sup>6)</sup> Rubber processing was a little more complicated, but not much more.<sup>7)</sup> Sugar and some other processing required large capital, but as capital became more abundant, the Chinese also moved into such capital intensive processing (for example, Kian Gwan).

More important, however, for the growth of Chinese businesses in the post independence period is the nationalistic policy of governments.<sup>8)</sup> Chinese businesses were not treated as full-fledged national capital in some countries, but foreign businesses suffered more. Since the indigenous were not able to take over them, the Chinese filled the vacuum.<sup>9)</sup> In these countries, to increase the indigenous share in the economy, the government became an important

↘ does not qualify as a capitalist institution, for the same reason VOC does not. For the life of Yap Ah Loy, see Middlebrook [1951].

3) For Chung Keng Kwee, see Godley [1981].

4) For the Ho Hong Group, see Song [1984]; for Kian Gwan, Panglaykim and Palmer [1970]; and for Chin Teng, Hong [1984].

5) For some of the problems the Chinese faced in banking, see Wilson [1972].

6) Modern rice milling was started by Western merchants, but they were soon phased out of this field, except East Asiatic Co.

7) The Chinese could not, however, start latex production until postwar years. Lee Kong Chian was one of its pioneers.

8) This can be seen most clearly in the rise of Chinese banking in the postwar period. In Malaysia, for example, British banks, which used to dominate this field in the prewar period, lost the dominant position to Chinese banks.

9) For some time after Indonesia nationalized Dutch rubber plantations, Singapore processed and marketed the rubber from these plantations. A large part of it seems to have been smuggled out from Indonesia.

element of domestic capital, but in the private sector Chinese capital occupies a more important position than indigenous or foreign capital.<sup>10)</sup>

### III Discontinuity

In the past several decades Chinese businesses increased in number as well as in size, but there is not much continuity in individual businesses. Most of the Chinese businesses in the prewar period do not exist today. Ho Hong Group (shipping and trading), Kian Gwan (trading, banking, and sugar production), Loke Yew's and Eu Tong Sen's tin mines, Dee C. Chuan (lumber trading), Cu Unjieng & Co. (textile trading), Yek Hua (general trading), Koe Guan (shipping), Kim Seng & Co. (general trading), Kim Seng Lee & Co. (rice and saw mills), Tan Kah Kee & Co. (rubber trading and processing)—these are all gone today.<sup>11)</sup> As late as the 1950s and the early 1960s, we heard

much about Ko Teck Kin, Heah Joo Sian, and Tan Lak Sye in the rubber circle of Singapore, but their businesses are also gone. In their place, there are many new ones. In Indonesia, all Chinese businesses are the creation of the past two decades. For example, the two largest business tycoons of the country, Liem Sioe Liong who owns the largest conglomerate in Indonesia and William Soeryadjaya who owns the Astra group, were non-persons until the mid 1960s.<sup>12)</sup> The same is true also of lesser tycoons such as Go Swee Kie, Go Ka Him, and The Ning King. Also in Malaysia, new businesses dominate. For example, take three Chinese businessmen who often appeared in newspapers in the early 1980s; Tan Koon Swan, Koo Kay Peng, and Robert Kuok. The first two were in obscure existence in the late 1960s; at this time, Robert Kuok was already known but his prominence did not go

10) Although foreign capital is important in some manufacturing fields (especially where there is a technology gap), it is a myth that it still dominates the economy. The situation varies somewhat by country and sector, but for the economy of the ASEAN region as a whole, Chinese capital is more important than foreign capital. See Yoshihara [1988: Chapter 3].

11) Ho Hong, Kian Gwan, and Kim Seng Lee were mentioned earlier in the text. Dee C. Chuan, Cu Unjieng & Co., and Yek Hua operated in the Philippines, Kim Seng & Co and Tan Kah Kee in Singapore, Eu Tong Sen and Loke Yew in Malaya, and Koe Guan in Malaya and southern Thailand. References for Ho Hong, Kian Gwan, and Kim Seng Lee were given

earlier. For Kim Seng & Co., see Song [1984]; for Tan Kah Kee, the best English sources would be the transcripts of Tan Keong Choon and Tan Kok Kheng's testimony available at Archives and Oral History Department in Singapore; and for Koe Guan (as well as Eastern Smelting and Eastern Shipping), Cushman [1986]. On Eu Tong Sen, there is some information in Song [1984], and on his businesses, in Gullick [1983]. Information on the rest is scattered.

12) The Liem Sioe Liong Group (sometimes called Salim Group) consists of the Bank Central Asia Group, Tarumatex Group, First Pacific Group (in Hong Kong), Sinar Mas Inti Perkasa Group, Indosteel Group, Indomobil Group, and Waringin Kencana Group. The Astra Group grew as the agent of Toyota, and recently diversified into plantations.

back more than several years. Why then isn't there much continuity in Chinese businesses? Several possible reasons are listed below.

1) The Ambivalent Attitude of Colonial Government

Businesses get into trouble sometimes, and whether they can survive or not at this time depends on the government's rescue operation. Recently, this was demonstrated amply in the rescue of Chrysler Corp. by the manifestedly *laissez faire* Reagan Administration. More examples of this kind can be found in the business history of Japan, where the government has been more interventionist. In the colonial period of Southeast Asia, however, Chinese businesses could not count much on the government for help.

It is true that colonial government was not completely hostile to Chinese businesses. If it had been, they would not have progressed as much as they did. And under some circumstances, governments came to the rescue of Chinese businesses. For example, when the Chinese Commercial Bank of Singapore faced a run in 1914, the colonial government came to its support and forestalled its bankruptcy [Wilson 1972: 33]. But the same government refused to help when Tan Kah Kee got into trouble in the early 1930s. He was causing trouble to the colonial government by sending money to China to build schools and also posing a threat to Western merchants as a competitor in business.<sup>13)</sup> In general, Chinese businesses

were a Chinese affair in which the colonial government did not want to intervene. The Singapore government's rescue operation in 1914 was more of an exception than a rule.

2) Discrimination

During the period of several decades before the Pacific War, colonial government policy was probusiness, based on the *laissez faire* ideology that had come to dominate in the West, under which Chinese businesses prospered. This environment, however, changed drastically in some of the newly independent countries in the postwar period. Burma and Vietnam rejected capitalism outright and nationalized its institutions. Indonesia went in a similar direction during the past decade of the Sukarno administration. The nationalization of Dutch enterprises in late 1957 was the beginning, and by the middle of the next decade, all Western enterprises ceased to exist in Indonesia.

It was under this anti-capitalist setting that the biggest Chinese business, Kian Gwan, was nationalized. In this nationalization, however, there was strong anti-Chinese feeling involved. The initiative came from a morbidly anti-Chinese government official (Gunawan) who came to dislike Kian Gwan when he was in Semarang (the home base of Kian Gwan). Later, when he became Attorney General in Jakarta, he charged

13) The transcript of Tan Keong Choon's testimony, Archives & Oral History Department (Singapore), Sept. 1981 [Singapore n.d.: 123]. Tan Keong Choon is Tan Kah Kee's nephew.

that the company had violated a foreign exchange law, and confiscated it for this offence.<sup>14)</sup> In the New Order period, there was practically no Chinese discrimination in the first several years. Then in 1974, the pribumi policy was initiated, but it did not have much effect on Chinese businesses, for the government was not seriously interested in its implementation (at least, not in applying it to the capitalist sector).

In the Philippines, such discrimination measures as the Retail Nationalization Law (which required 100 percent Filipino ownership for engaging in trade) and the "Filipino-first" policy (in the allocation of foreign exchange) caused a great deal of difficulty for Chinese businesses in the early postwar period. The damage was, however, not so large as in Sukarno's Indonesia. One reason for this is the fact that Philippine discrimination was partly a matter of legality: Those with citizenship did not face much discrimination. For the rich Chinese, it was possible to get naturalized, and those who could not get naturalized transferred their ownership to those who had citizenship [Yoshihara 1985: 84-88].

Malaysia's New Economic Policy (NEP) (started in the early 1970s) hit Chinese businesses hard, especially Chinese banks. The Chinese owners who got fed up with government interference sold their ownership to the Malaysian

government or Bumiputra entrepreneurs. UMBC, Kwong Yik Bank, and D & C Bank are no longer Chinese-owned. In the case of UMBC, the major shareholder Chang Ming Thien, wanted to sell his holding to another Chinese group (Multi-Purpose Holdings), but this wasn't allowed by the Malaysian government.<sup>15)</sup>

There are banks which still remain Chinese in Malaysia (for example, Public Bank), so as in the case of the discrimination in the Philippines in the early postwar years, discriminatory measures were not insurmountable, but were conducive to the decline of old and the rise of new businessmen. Some established businessmen were so used to the business practices of the period when there was no government interference that they could not adjust themselves to the change of environment. In the Philippines, it was necessary to bribe government officials in order to get around discrimination. And under the NEP of Malaysia, if they wanted to succeed, the Chinese had to be able to work with Bumiputras. In short, change in the business environment required a new type of businessmen. People like Robert Kuok in Malaysia are such examples.

14) Interview with Liem Tjwan Ling (Nov. 1985). Mr. Liem is the author of *Raja Gula: Oei Tiong Ham*, Surabaya, the Author, 1979. This information was also confirmed by Panglaykim when I talked with him in May 1986.

15) Gill [1985: 183] gives a slightly different account, but he also discusses the problems Multi-Purpose had with the Malaysian government in taking over the bank. At present, UMBC's controlling share is owned by the state enterprise, Pernas. Gill's book also discusses a number of other Chinese businessmen in Malaysia. Also see Gale [1985].

## 3) Loss of Political Patronage

Government intervention in the economy is extensive and arbitrary in South-east Asia. It is sometimes justified by citing Japan as an example of the pattern of development based on government intervention. But, partly as a legacy of feudalism and partly as a result of military competition, Japanese government intervention was more purposeful and more subject to rules and regulations than the government intervention of the past few decades in South-east Asia. In the region, rightly or wrongly, one still gets an impression that the government dominates the economy, allowing little room for independence of the economy.

Under this environment, if one wants to amass a fortune, the quickest way is to become a favorite of a politically powerful figure, and use this connection for the advantage of his business. There are numerous examples of this, ranging from the bureaucratic capitalists during the Chulalongkorn period to the crony capitalists during the Marcos period. Most of their businesses were, however, so dependent on political patronage that they declined after their patrons died or lost political power.

The most recent example of this is Lucio Tan of the Philippines. During the martial law period, by becoming a close associate of President Marcos, he built up his business empire. He established himself first in tobacco business before martial law, and then by using his close ties with Marcos, went into

banking; and later, into beer production.<sup>16)</sup> There is no question that he is a smart businessman, and in this regard, he is different from other cronies such as Silverio, Cuenca and Disini, which is shown in the fact that while other cronies' businesses had declined by the time of Marcos' fall from power, his businesses were still going strong. But this was of no avail. President Aquino's Commission on Good Government sequestered his flagship, Allied Banking Corp., judging that it was "ill-gotton" wealth during the Marcos period.

Liem Sioe Liong is a crony of President Soeharto, but unlike Lucio Tan, he is still a powerful businessman in Indonesia. But when President Soeharto goes, what will happen to his businesses? Many other *cukongs* also have to worry about the effects of a new alignment of powers in the post-Suharto period.

## 4) Government Monopoly

The governments of Southeast have made certain industries their monopolies and disrupted private businesses engaged in such industries. This government intervention was a result of anti-Chinese policy in some cases, but

16) Lucio Tan's success began around 1970 with Fortune Tobacco. In the mid 1970s, he bought a bank in trouble (General Bank) and changed the name to Allied Banking Corp., which became one of the top banks during the Marcos period. Undoubtedly, without the facilities given by the Marcos government, the bank could not have grown so rapidly. Then in the early 1980s, he set up Asia Brewery and challenged the monopoly of San Miguel in beer. However, he has not been very successful in this field.



not always: it also arose from the abuse of political power by politico-bureaucrats who either wanted to gain from it personally and/or had a misconception of the role of government in the economy.

In the modern period, Thailand pioneered government monopoly; for several years from the late 1930s, rice milling and trading, the major industry of the country, was made a monopoly of the state enterprise, Thai Rice Co., and general foreign trading of another state enterprise, Thai Niyom Panich Co. After the People's Party lost power, however, this policy was discontinued [Sungsidh 1980].

In the 1950s and 1960s, government monopoly was in decline. Then in the 1970s, after martial law, the Marcos government renewed it under the pretext of economic rationalization and terminated the lives of a number of private businesses. For example, when sugar trading was made a government monopoly, Arca & Co., a sugar trading company founded by Antonio Roxas-Chua, lost its business and soon ended its corporate existence. Also during martial law, a number of Chinese coconut oil mills were taken over by another government monopoly, United Coconut Mills (UNICOM).

In the past several years, the Indonesia government has been also playing a monopoly game. This may have affected some businesses negatively, but no businesses have yet disappeared for this reason. Those which were negatively

affected were general importers, and handled a number of "free" (non-monopolized) goods.<sup>17)</sup> The difference between Indonesia and the Philippines is found in the commodities monopolized. In the case of the Philippines, they were export commodities, while in Indonesia they are imported commodities. In export commodities, there were a number of specialized processors and traders.

#### 5) Poor Management Structure

Problems arising from management style would be best illustrated by contrasting the management styles of two rubber magnates who were active in Singapore in the early 1950s. One is Tan Lark Sye and the other is Lee Kong Chian. Tan Lark Sye's Aik Hoe no longer exists today, whereas Lee Kong Chian's Lee Rubber is still a large concern.

There is no question that Tan Lark Sye was a shrewd businessman since he amassed a large fortune (and he often donated money generously for the cause of the Chinese community), but he paid little attention to building an organization. His management was of one man style: he made all major decisions. He had too much confidence in himself, so he did not make efforts to

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17) The import monopoly of Indonesia started with cloves, and expanded to rice, sugar, and more recently to plastic materials, tin plates, cold rolled steel, and cotton. Even the domestic distribution of some commodities, namely PTA and methanol, which began to be produced in the country, became the monopoly of some government-connected trading companies.

develop managers.<sup>18)</sup> Essentially, it was a traditional Chinese management doing a large business.

Lee Kong Chian was different. He was convinced that in order to make his business grow and make it competitive with Western companies, he had to introduce some Western management practices. As part of this move, he delegated power to promising persons, and for the good work done, paid generous bonuses. So, under him emerged several competent managers; Lee Seng Peng who managed the company's operation in Kuala Lumpur and northern Malaysia, Soo Lian Too in southern Malaysia, Yeo Hong Lian in Indonesia, and Lee In Tong in Thailand. They kept the company going even after Lee Kong Chian retired.

Among the Chinese, Lee Kong Chian was an exception, whereas there were a number of people like Tan Lark Sye. Other Chinese businessmen may have had better organizations than Tan Lark Sye, but they were family-managed and shared a common problem. That is, they could not delegate much management power to people outside the family. While they were alive, being shrewd businessmen as well as effective leaders, they could keep large businesses going, but after they died, since there was no durable management structure, their businesses declined.

But why couldn't they delegate power

to other people? Clearly, history has something to do with it. For example, in Japanese zaibatsu there was a great deal of separation of management from ownership, despite a strong family tradition. Many of the large merchant houses in the late Tokugawa period already had a fairly well-developed management structure, largely because they had a long business history behind them: in the case of some old houses which evolved into zaibatsu in the modern period (such as Mitsui and Sumitomo), their history went back a few centuries. In the process of their evolution, as a matter of survival, they developed a management structure which could cope with business competition (under feudalism, it was constrained in many ways, but over generations, still effective in changing the fortune of a business family). Then in the modern period, newly established houses (such as Iwasaki of Mitsubishi) had to introduce a similar structure if they wanted to compete with old established houses. As a result, the pattern of organization which came to prevail in businesses is family ownership and professional management.

But the problem does not seem to be the matter of history alone. Although it is difficult to make an objective comparison, the Chinese seem to have suffered more from cheating and other deceptions than the Japanese, possibly because of lax enforcement of law (either in colonial times or in the post-independence period). If there is a great risk in getting cheated by bringing outsiders into

18) The transcript of Tan Eng Joo's testimony, Archives & Oral History Department (Singapore).

management, it becomes wise policy for the family to keep management to themselves.

#### 6) Equal Inheritance

In Western Europe and Japan, primogeniture came to be established as the prevalent system of inheritance, and this helped business continuity. For example, it was the established policy of a large Japanese merchant house to hand over its business to one son (usually the eldest); other sons received some help in becoming independent, but were barred from inheriting the bulk of family wealth. Under this system, there was no tendency for wealth to dissipate over generations and there was no risk of family dispute in business take-over.

In the Chinese system of inheritance, all sons have roughly equal rights, which have created problems for business continuity. If all sons are in business and want to have their own businesses after the father dies, instead of concentrating in one field, he may have to diversify to create enough number of businesses for his sons, thus sacrificing the potential for his main business to grow further. If he has built up a conglomerate from a purely business viewpoint, after it is split among his sons, each subgroup is smaller, and has less chance to survive.

Even under the system of equal inheritance, it is possible not to split family wealth, but in this case, too many sons (and sometimes daughters) want to participate in management. This is partly because there are not enough attractive

professions outside business. Another reason is that since there is a great deal of cheating in financial reporting, it is difficult for siblings to entrust management to other brothers and be satisfied with dividends to which they are entitled as shareholders. But when there are many family members in management, the line of authority gets blurred, management top-heavy, and to make things worse, they sometimes fight each other. For example, the Tjong A Fie family finally declined for this reason.<sup>19)</sup>

#### 7) Short-term Time Horizon

Among many Chinese businessmen there seem to be great urge to get rich quickly.<sup>20)</sup> In speculation, one can make a lot of money quickly, but there is the danger of ruining one's business. In early 1981, Dewey Dee fled the Philippines, causing a financial crisis in the country. He lost in speculation, and in order to make up for it, he borrowed to speculate again. He must have been a bad speculator: by the time he ran away, he had a debt of \$83 million.<sup>21)</sup> At this time, it was being said that his case was the tip of an iceberg: many of his Chinese friends were also speculators.

Another way to get rich quickly is to

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19) Interview with Tjong Kwek Liong (Nov. 19, 1985). He is a son of Tjong A Fie's.

20) There is gambling everywhere, but in reading materials on Chinese business in Southeast Asia, one gets an impression that there was more of it among rich Chinese. In Singapore, it is said that there was much gambling going on in Ee Hoe Hean Club, and also in Tanjong Rhu Club.

21) See *The Asian Wall Street Journal*. April 22, 1981.

make use of the stock market. Since it is quite time consuming to develop a business and get it listed on the stock market (certain criteria have to be met to be able to be listed), it is a short-cut to buy a listed company in trouble, resurrect it somehow, use it for raising capital on the stock market, and invest this money in corporate acquisition. In this, there is no real business development, but a great deal of business talent gets mobilized for this strategy. Sometimes, an unscrupulous businessman manipulates the market or violates the trust the shareholders place in his management. Recently, Tan Koon Swan was arrested for these offences.

To borrow heavily for investment is another strategy to get rich quick—as long as prices are going up. When prices start coming down, however, this strategy can cause business failure. In the 1970s, the ASEAN economy was booming, and many businessmen borrowed heavily from banks, and invested in real estate. But when the economy started to stagnate in the early 1980s, they got into trouble. They ended up with hotels, high rise buildings, and land which they could not market, while interest payments were piling up relentlessly. Kee Yong Wee of Malaysia and Hendra Rahardja of Indonesia gave in relatively early. More failures are bound to come.

The impression that there is no long-term strategy in Chinese businesses is strong because there are no Matsushitas who have built up businesses over many

years on their own efforts.<sup>22)</sup> Many businesses in manufacturing industry in Southeast Asia are the agents of foreign manufacturers. For example, Tawon Pornprapha of Thailand, Eric Chia, Loh Boon Siew, and Tan Yuet Foh of Malaysia, and William Soeryadjaya of Indonesia are essentially the compradors of Japanese auto manufacturers. They made money by assembling and distributing Japanese cars, but when the market got saturated and business expansion slowed down, they began diversifying, usually into non-manufacturing. Once the car business was stabilized, they did not see much challenge in it, being unable to do anything about the technology. And also, it is too risky to concentrate in such enterprises, since their businesses would decline if Japanese cars lose competitiveness or cannot be supplied if for some reasons, foreign exchange becomes unavailable. Hendra Rahardja (who assembles Yamaha motorcycles in Indonesia) diversified in the wrong direction in the wrong way: he lost a lot of money by investing in hotels in Singapore.

22) Several years ago, Brian Chang's Promet in Singapore could qualify as an independent manufacturing company (a maker of oil equipment) with the ability to compete in the international market, but like many others, it also went into property development and is now in trouble. The decline of oil prices, which reduced oil exploration in the region, is of course, an additional reason for Promet's trouble. At the time of this writing, it is at the brink of bankruptcy (*Asian Wall Street Journal*, Sept. 11, 1986).

#### IV Continuity

There are Chinese companies whose history goes back to the prewar period. For example, Malayan Insurance Co., La Tondena, and China Banking Corporation of the Philippines, OCBC and Lee Rubber of Singapore, Wang Lee Bank of Thailand, and Ban Hin Lee Bank and Cycle & Carriage of Malaysia. What distinguishes them from those which have disappeared?

One should first note that there are no Chinese businesses in Indonesia which go back to the prewar period. For some time after independence, anti-Chinese feeling was strong there, so there was hardly any Chinese business left at the end of the Sukarno period. In the other ASEAN countries, however, anti-Chinese policy was not so disastrous as in Indonesia. In Thailand, it was short and half-hearted. Theoretically, the period of discrimination lasted until 1957 when Sarit became the strongman, but in practice, after the People's Party lost power to the military in 1947, there was no systematic discrimination against the Chinese; as a matter of fact, some Chinese businesses grew during this period. In the Philippines, discrimination caused problems, but it was not impossible to overcome.

There has to be some distance kept from the government, in order to avoid possible persecution from the next one. Some ties with the government are unavoidable where politics dominates the

economy, but to be too close to the government is a bad long-term strategy. Lucio Tan has lost his bank because of his close connection with Marcos, but the other Chinese businesses (for example, China Banking Corp.) will not be affected since there were no particularly close relations between them and Marcos. Also, where the head of the state is elected, it is better not to get heavily involved in election campaigns or to become a chief financier of one candidate. If this candidate loses, the successful candidate will regard him as an enemy and mete out a retribution against him. In the worst case, he has to leave the country.

When it comes to the business side of problem, it is difficult to detect any tendencies. Concerning ownership, businesses may be family-owned (for example, La Tondena), family-dominated (UOB), or jointly-owned (for example, China Banking Corp.). Management may be family-dominated or left to professionals. In a family business, the owner family usually dominates management, though some professionals are always employed (especially in technical fields). Also in a jointly-owned business, at least one of the major owners is usually involved in management, often as the chief executive officer (for example, UOB). There are some exceptions, of course. The Lee family leaves the management of Lee Rubber completely to professional managers, and so do the owners of OCBC.<sup>23)</sup> The former chairman

23) The management policy of OCBC may ↗

of OCBC, Tan Chin Tuan, held a few percent share of the bank, but this was not the reason that he was given the top executive position. The present chairman, Yong Pung How, holds practically no share of the bank.

It is not necessarily true that jointly owned businesses are more long-lasting or that separation of management from ownership is necessary for long-term survival. At least, these propositions have not been true thus far. But one notices that banks tend to be more long-lasting.<sup>24)</sup> From the beginning, banks were usually joint-owned and management more professionalized: the amount of necessary capital for a bank was usually beyond the ability of one family to raise, and since the financiers were traditional Chinese businessmen, they needed professional managers.<sup>25)</sup> From

the example of such banks, one may surmise that in the future, if businesses want to continue to grow, more outside capital have to be brought in and there has to be greater separation of management from ownership. But change in these directions can be slow. In both management and ownership, the family will try to remain as the core. And if it has to give up either, it will give up management first. Even if outside capital is brought in, the family can keep a controlling ownership for a long time to come.

One institutional development which helped a business to last long is that of the stock market. Even if a family owns a controlling interest, there are a few advantages for the shares to be listed on a well developed stock market. Among these, the chief advantage is that when shareholders become dissatisfied with the present management, they can transfer their holding to others through the stock market, so that their dissatis-

↘ have been influenced by Lee Kong Chian who was involved in the formation of the bank in the 1930s and also became its largest shareholder in the early 1950s (held about 20 percent of the shares) [Puthucheary 1979: 134-135].

24) One should, however, keep in mind that there were a number of bank failures. The first Chinese bank in Malaya, Kwong Yik Bank, got into trouble in the early 1910s (this is different from the Kwong Yik Bank which exists in Malaysia today). The three banks which merged to become OCBC did so because they could not tide over the problems they faced in the early 1930s. In Thailand, such prewar Chinese banks as Soon Hok Seng Bank, Tan Pen Choon Bank, and Thye San Bank; in Indonesia, Batavia Bank, Fah Tung Chinese Bank and Oei Tiong Ham Bank; and in the Philippines, Wat Hung Bank and Mercantile Bank of China—all of these banks do not exist today.

25) Banks were different from pawnshops and

other traditional financial Chinese institutions. For the problems a Chinese bank faced in its early years, see, for example, Dick Wilson's history of OCBC. In most of the prewar period, the general managers of China Banking Corporation were Americans (*Manila Chronicle Business Report: China Banking Corporation*. August 16, 1970, p.10). To hire a foreigner as general manager seems to have been quite common in Chinese and other Asian businesses, at least in their initial phases. When a Chinese group set up Eastern Smelting Co. (a tin smelting company) in Penang, they hired a foreign manager [Cushman 1986: 73]. A number of sugar mills in the Philippines were also managed by foreigners (these were, however, owned by Filipinos).

faction does not have to lead to dissolution of the business. In the case of a family dispute, transfer of ownership becomes easier from the dissatisfied party to those in management or those who support it, since objective prices are indicated in the stock market. Without a well developed stock market, an objective evaluation of shares is not clear, so that when family dispute arises, it can get locked up and take an ugly turn. When there was a family dispute in the Aw family, some members who were not happy with the way its businesses (the major one was Haw Par Brothers, which is known for the Tiger Balm brand of medicine) were being run sold their holding through the Singapore stock market to a group which wanted to take over the businesses.<sup>26)</sup>

The succession problem can be overcome if the founder grooms his successor before he dies. In the case of Lee Kong Chian, he chose one of his sons (Lee Seng Gee) as his successor for the rubber business (Lee Rubber) long before he died (he retired from rubber business in 1954, and died in 1967). In the case of Oei Tjie Sien (the founder of Kian Gwan), he chose Oei Tiong Ham as his successor, while he gave some property to the other son (Oei Tiong Bing) and made him leave the company. Oei Tiong Ham also limited the number of sons who could stay in business; he chose two to be his

main successors. Between the two, after a while, Tiong Haw emerged as the new head of the family, and remained so until 1950 when he died suddenly of a heart attack.<sup>27)</sup>

Even if brothers and brothers-in-law are involved in management, if the new patriarch has a controlling ownership, he can impose his will on them, and family disputes can be avoided. So, it is important for the predecessor not only to train his successor, but transfer controlling interests to him. This can be more easily done if it is planned well in advance and if there are no tax and legal problems to worry about.

From the family's point of view, it is important to continue to control its business, and as a measure to insure this, it seems to have become fashionable to set up a foundation to which its holdings are transferred (for example, the Lee Foundation and the Shaw Foundation). This has certainly prevented family holdings from getting fragmented, but there is no assurance that the business the foundation controls will continue to prosper. In the 1920s, Tjong A Fie also took this precaution, but his business empire has disappeared since then. When he was getting old, all of his children were still small, and so in his will, he left management to a Dutch manager who had been working for him. But since there was no effective supervision on him, even though he was mismanaging Tjong A Fie's estates,

26) It was Slater Walker Securities (a British company) which took over the Aw family's businesses, but they were later bought back by Wee Cho Yaw's OUB group.

27) For the line of succession in Kian Gwan, see Liem [1979: especially chapter 1].

nothing was done about it.<sup>28)</sup> So, even if a foundation is set up, there is still the problem of effective management. The family can supply it by getting directly involved, or if they decide to leave it to professional managers completely, they have to choose good managers and supervise them.

## V How Chinese is Chinese Business Discontinuity

Although there are some long-lasting Chinese businesses in Southeast Asia, when compared with a country like Japan, Chinese businesses have tended to be short-lived. Most businesses which were operating in the early years of this century no longer exist today, and most of those operating today are relatively new. Section III listed several factors which account for this: they are the factors which either did not exist or were not very relevant in the business history of developed countries.

One can ask whether indigenous businesses are also short-lived for the same reasons. This question is somewhat difficult to answer because there are not enough long-established indigenous businesses, but one can answer it tentatively as follows.

Many of the factors listed in section III apply also to indigenous businesses. For example, political retribution also destroyed indigenous businesses. The "palace" entrepreneurs at the end of the

Sukarno period and the crony capitalists during the Marcos period who suffered under the new regimes were largely indigenous businessmen. And, when Marcos declared martial law, he destroyed Eugenio Lopez (his brother was a challenger to Marcos, and Eugenio was his financier). Also, the succession problem has plagued indigenous businesses (for example, the Affan brothers of Indonesia). Furthermore, many indigenous businessmen wanted to get rich quickly in an easy way, and subsequently got into trouble. For example, a number of Bumiputra businessmen were engaged in high finance in the 1970s, and are now suffering the consequences; and people like Silverio and Disini ended their business careers by going into a risky area of finance. But in the Philippines, where indigenous businessmen began appearing much earlier than in the other Southeast Asian countries, there are a number of indigenous businesses whose history goes back to the prewar period—and there are many more of them than Chinese businesses.<sup>29)</sup>

Why? In answering this question, there is one basic fact about Chinese businesses we have to keep in mind: that is, the Chinese, being a minority group who have often been subjected to discrimination, feel insecure about their position in society. How this fact has affected the continuity of Chinese businesses cannot be fully documented here,

28) Interview with Tjong Kwek Liong (Nov. 19, 1985).

29) Some examples of the presently existing Filipino companies set up in the prewar period can be found in Yoshihara [1985: Chapter 6].



but one of its direct effects is on the time horizon. When there is discrimination or a possibility of discrimination in the future, a long-term business strategy becomes difficult. Under such a circumstance, the most reasonable thing to do would be to make money as quickly as possible (by resorting to speculation if necessary) and invest a substantial portion of it abroad, if not run away.

To a number of Chinese in regional cities in Indonesia, the military who control the state apparatus look more like racketeers than like a legitimate government institution. The Chinese have been the target of violent attacks by the Indonesians, so those who have tangible assets are willing to pay contributions to the military if they can offer protection. This arrangement of protection, however, takes the form of organized crime when the military directly threatens the Chinese or indirectly through inciting private anti-Chinese groups. Many of the big Chinese businessmen who are well-connected with the government in Jakarta do not have such a problem, and are greatly benefiting from the government, but they too seem to feel uncertain about their or their families' future since there is an undercurrent of anti-Chinese feeling in Indonesian society. In Malaysia, the situation is not so bad as in Indonesia, but there is also a feeling of insecurity and concern about the future. Under such a setting, a long-term business strategy is difficult.

Discrimination, also, has indirect ef-

fects, preventing, for example, social integration, which seems to have affected adversely the continuity of Chinese businesses in a roundabout way. For example, the lack of social integration may have been a major reason the Chinese could not develop a public company like San Miguel Corp. And also, relative to a comparable indigenous businessman, a Chinese businessman was at disadvantage vis-à-vis indigenous businessmen, in developing social relations with major politicians and using these for business development (this factor becomes, of course, irrelevant in a country like Indonesia where Chinese businessmen are dominant).

In the prewar period, many Chinese were transients in Southeast Asia; they often sent money home and wanted to go home eventually when they made enough money. Did this fact affect negatively the continuity of Chinese businesses? It may have done so to some extent. For example, the investments of "mandarin capitalists" in railways and other businesses in China was not a wise decision from the business point of view (those which turned out to be profitable were confiscated in the late 1940s when the Communist Party came to power).<sup>30)</sup> And also, it could be argued that Tan Kah Kee's generous contributions to the cause of education in his home country could have been kept as an emergency fund for his business and that if this had been done, he would

30) For investment in China by Nanyang Chinese in the early years of this century, see Godley [1981].

have tided over the difficulties in the early 1930s. One might argue, however, that in any country, businesses contribute money for social purposes. But there is one major difference in the effects of such contributions between Chinese businesses and, say, Japanese businesses. In the latter case, there are 'investment' aspects to such contributions, and these might become useful when they get into trouble. In the case of Chinese business contributions, however, there were little material benefits in return: when Chinese businesses got into trouble, the Chinese government hardly did anything.

The effects of the Pacific War are not very clear. The relevance of the War may be questioned by pointing out that although Japanese businesses suffered badly from the war, there are many prewar businesses left. But the War cannot be quickly brushed aside as irrelevant since its effects may have been important under certain circumstances. In the Philippines, for example, many Chinese businessmen had contributed money to help the Koumintang government fight against the Japanese military. So, when the Japanese occupied the country, there was retaliation.<sup>31)</sup> And the subsequent few years were difficult for most Chinese businessmen. But many Filipino businessmen were also anti-Japanese, and suffered from the occupation. It is not clear whether the Chinese suffered more than the Filipinos. But there is more

continuity in Filipino than in Chinese businesses. This seems largely because the Filipinos could get government assistance to corporate rehabilitation more easily than the Chinese. If so, the more direct reason for the greater discontinuity of Chinese businesses is discrimination, and the Pacific War becomes merely a contributing factor.

So, in sum, one can state that if there is anything Chinese about Chinese discontinuity, it arises mainly from the fact that the Chinese are a minority group which have been subjected to discrimination.

## VI Concluding Comments

I have implicitly assumed thus far that there is some value to business continuity, but why? One can argue that since there has been more business continuity in the history of presently developed countries, business continuity is necessary for the ASEAN region if it wants to develop. But specifically how does it promote development?

If there is no continuity, there will be a great deal of repetition of same mistakes, and as a consequence, there will be much waste in the use of human and capital resources. And when there is an economy of scale, a large amount of capital has to be mobilized, but this is easier for a business which has some capital as the result of past accumulation and has a respectable reputation from the past record. Furthermore, the separation of management from owner-

31) For the problems the Chinese faced during the occupation, see Tan [1981].

ship, however desirable it may be for business development, cannot come in a short time. If it is tried in a new business, it tends to result in business failure. It can come only as the result of adaptation to a competitive environment by trial and error over generations.

Some business failures are, of course, healthy, for they serve as a warning to the businesses which stop innovating. But in the ASEAN region there have been too many failures, so a major problem of business modernization today is how to keep more businesses long-lasting. This may appear to be a purely business problem, but as pointed out above, business continuity has been affected, to a large extent, by non-business factors. After all, business is only a subset of a greater set. So, modernization of the subset is difficult without modernization in its complement.

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